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American Institute of Certified Public Accountants. Committee on Management Services by CPAs, "Management services by CPAs" (1957). *AICPA Committees*. 115.
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Management

Services

by CPAs

Prepared by the

COMMITTEE ON MANAGEMENT SERVICES BY CPAs

**AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

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Foreword

A significant recent development in the profession of public accounting is the growth of activity in the field of management services. The additional services do not represent a new field for CPAs, since many CPAs and firms of CPAs have performed some services of this type regularly for many years. Nevertheless, the activity of CPAs in this area is developing rapidly, to the extent that the rendering of management services now warrants separate recognition and treatment by the profession. To define this area of professional activity, and to summarize some of the relationships of the profession to it, this description of management services has been prepared by the committee on management services by CPAs for the benefit of the members of the American Institute of Certified Public Accountants.

As in other professions, the requirements for knowledge and experience have expanded so greatly that no individual practitioner can expect, or be expected, to be expert in all the possible areas of public accounting practice. Of necessity, each individual within the profession tends to be limited to intensive specialization in a few of the possible fields of knowledge and practice, or to general knowledge of relatively little depth in all or most fields, or to some combination of specialist and generalist.

This description and classification of areas of management services, therefore, is not an attempt to indicate categories which should or should not be included in the services of a CPA or firm of CPAs. Rather, it deals only with *possible* services. Therefore, the services listed are not to be construed

as an indication of existing individual or group abilities or qualifications, and this pamphlet does not constitute official sanction for an individual or firm to undertake any particular type of management service. No CPA should be considered to be an inadequate public accountant if he does not render numerous management services. Neither should anyone expect any one CPA to perform all of the services or any particular combination of them.

This pamphlet is intended to encourage those in the profession who have the requisite desire, initiative and abilities to make themselves competent to render appropriate management services; but at the same time it is intended to discourage the undertaking of services which cannot be performed satisfactorily under the existing circumstances. Each individual (or firm) must decide for himself how far he wishes to progress in this field.

Committee on Management Services by CPAs

October 1957

**COMMITTEE ON MANAGEMENT SERVICES BY CPAs
(1956-57)**

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What Is Meant by "Management Services by CPAs"?

The term "management services," when used in connection with the services performed by CPAs, is not self-explanatory. It has come to have a meaning which may be delineated as follows:

1. It refers to services that are being rendered by an appreciable number of CPAs to business management in addition to the conventional or traditional services rendered by a public accountant.

2. The traditional services offered by CPAs include auditing, tax service, preparation of financial statements of various types and advice on matters of accounting principle or treatment. These are, in the broad sense, services to management but they are excluded from the extensions of service to which the term management services refers. Some services, such as accounting systems work, may be a "traditional service" for some practitioners and a "management service" for others. The line of distinction between the traditional services and management services cannot be sharply drawn, and it is not important to do so as long as there is an understanding of the general nature of the term.

3. The term "management services" includes, but is not restricted to, assisting the client in problems of managerial accounting, e.g., reporting, budgeting, cost accounting and cost analysis, and operating cost control. It also includes the problems of office operation and office equipment.

4. It includes services which CPAs are asked to perform primarily because of existing confidence in individuals and firms, and because of the reputation which the profession in general has for integrity and

independence. Examples are: acting as arbitrator, and accumulating statistics for a trade association.

5. It includes various kinds of services performed for clients in conjunction with other expert advisers, such as attorneys, investment bankers, insurance counselors and industrial engineers.

6. Management services by CPAs tend to originate in connection with accounting records and problems, but often lead into areas which are related to the problem under consideration but not directly related to accounting. The internal use of accounting is only one part of overall business management, and well-rounded advice to management must consider all aspects of the management task. The services, then, may often appear to be unrelated to accounting, especially where the CPA and his staff members have had experience and training in other fields of business and management.

Qualifications and Standards of Performance

The qualifications of the CPA for management services are based in part upon his training for professional accounting and his analytical approach to his clients' problems, but more upon his experience in observing and working with the problems of his clients, supplemented by reading and research in specific areas. The intimate knowledge which he has gained from close association with his clients is one of the important reasons why the CPA can be expected to offer useful counsel and guidance on various phases of business problems. For some services, his qualifications may be based upon specialized training which he has received. It is obvious that a CPA should not attempt to render a service for which he does not have adequate knowledge and experience.

There are various ways in which the CPA can assist his

clients when he realizes that a prospective service for the clients is beyond his present experience or competence:

1. He can improve his own qualifications to the extent necessary by studying or taking additional training in the particular field.

2. He can develop his ability to render the service to his clients by adding fully qualified personnel to his organization, provided he is capable of supervising or evaluating their work.

3. He can recommend to the client the calling in of another accounting firm which does have the necessary personnel and qualifications to handle the problem or perform the service needed.

4. He can advise the client on the use of other professional and technical consultants. In this connection, he often can express an informed useful opinion on conflicting recommendations.

Services of other professional consultants may not be available readily to smaller clients or in smaller communities and the relative importance of the problems may not justify the employment of other advisers. In many such instances the experienced CPA may be able to give his client effective and valuable advice without the necessity of consulting an outside specialist.

The principal point to emphasize is that a CPA should make sure that *under the circumstances* he clearly is qualified to render a particular service before he offers it to his clients.

Independence

In extending the scope of his services to his audit clients, the CPA will not want to jeopardize his position as an independent auditor. The problem of maintaining independence

when management services are performed usually is not a difficult one. These services are performed on behalf of management without responsibility to third parties and, therefore, the concept of independence is somewhat different than that applicable to auditing. If the CPA in serving management keeps his relations, as he should, at the advisory level as distinct from the decision-making or operating level, he should be able to maintain his position as an independent auditor.

Areas of Management Services

The accompanying examples of areas of management services by CPAs are classified according to the major functions of business management. The examples listed are intended to be illustrative, to suggest possibilities and to stimulate interest. They do not constitute a check list of areas within which any CPA should be qualified to render service. Services in all areas have been performed by CPAs, some being performed by relatively few and others by many.

The extent of service naturally will vary widely in individual situations and will depend on the conditions and the persons involved in each. Performance of many management services, however, will involve the fundamental steps of: (1) fact gathering; (2) analysis; (3) recommendation; and (4) assistance in putting the recommendation into effect, where that is desired by the client.

I GENERAL MANAGEMENT

General management: objectives and policies

Organization

Management controls: system of internal reporting;
cost and expense controls; budgetary control

Special investigations: purchase or sale of business

II FINANCE

Financial structure: types and sources of capital or financing

Financial requirements: short and long term needs

Financial policies: retention or distribution of earnings; credit and collection

Financial planning: forecasting; operating budgets; cash budgets; capital budgets

Insurance: coverage; records

Cost accounting: systems; standards; principles and procedures

Pensions and profit sharing

Government contracts: costs, renegotiation or re-determination

III PRODUCTION

Plant and equipment: economic justification; depreciation and obsolescence

Production standards

Production control: records and statistics; inventory control

Material control

IV SALES

Distribution and merchandising: distribution costs and statistics

Sales management: pricing; sales results

V OFFICE MANAGEMENT

Systems and records: accounting systems; forms and records; data processing

Office equipment

Office layout and space utilization

Office organization

Office personnel: workloads and standards; evaluation

VI *PURCHASING*

Purchasing procedures

Inventory control

VII *TRAFFIC AND TRANSPORTATION*

Transportation equipment: operating costs

VIII *PERSONNEL*

Recruitment or interview: office personnel

Training: accounting personnel

Job classification and evaluation

Compensation: types of work; wage incentives;
profit sharing distributions

Employee benefit programs

IX *RESEARCH AND DEVELOPMENT*

Records and controls

X *OTHER PROFESSIONAL SERVICES*

Accumulating and reporting trade statistics

Arbitrating disputes

Assistance in rehabilitating a business